GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:229
ANSWERED ON:18.02.2009
INSULATING INDIAN INVESTORS
Karunakaran Shri P.

Will the Minister of FINANCE be pleased to state:

(a) whether the recent economic crisis in United States and Europe have also affected the Indian economy;

(b) if so, the details thereof;

(c) the details of the American and British banks and insurance companies that have shares in their Indian counterparts;and

(d) the steps taken or proposed to be taken by the Government to insulate Indian investors from such crisis?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (d): Following robust average annual growth in real GDP of 8.8 per cent in the last five years, a moderation in growth in 2008-09 is expected. As per the Advance Estimates released by the Central Statistical Organisation on February 9, 2009, real GDP is estimated to grow by 7.1 per cent in 2008-09. Factors like high global commodity prices, particularly oil and the spike in domestic inflation in the first half of the current financial year and the direct and indirect impact of the global financial crisis since September 2008 are responsible for this. The global slowdown has its implications on the domestic economy, primarily thorough the moderation in capital inflows, the financial markets and trade. India's exports have been affected on account of the recession in advanced economies. As compared to other major economies that rely on external demand, the contribution from external sector to demand is small in India and hence the lower impact on real GDP. The direct impact of the global financial crisis manifested mainly through a contraction in capital flows which put pressure on the rupee and resultant pressure on domestic liquidity and a fall in the equity market indices. The fall in equity market indices owes mainly to net outflows of foreign institutional investments this year. The exposure of Indian banks and financial institutions to the distressed global assets is limited and RBI's prudential norms provide adequate safeguards.